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Consumer Sales and Use Tax Questions

Q. *I purchased property on the Internet and was charged tax. Isn't the Internet exempt from tax?*

A. There are many proposals to keep the Internet free from taxation. However, they are not referring to sales tax. Rather, they are referring to taxes on fees charged by Internet service providers, much like the taxes and fees imposed on your telephone bill. When tangible personal property is purchased on the Internet, it is subject to either sales or use tax.

Q. *Why must I pay tax on my “free” cellular phone?*

A. “Free” cellular phones are taxable when the retailer requires you to purchase a service agreement in order to get the phone. Tax is based on the fair retail selling price of the phone, that is, the price at which the retailer would sell the phone without the service agreement.

Q. *Are tips subject to tax?*

A. When a tip is optional it is not subject to tax.
If the tip is mandatory (required to be paid by the customer) it is taxable.

Q. *I ordered a product through a catalog and was charged tax on the shipping and handling. Are shipping and handling charges taxable?*

A. Charges for handling are considered “a service related to the sale” and are subject to tax. Only the actual amount paid by the retailer for shipping may be exempt from tax. The retailer must be able to identify the actual cost of shipping for tax not to apply.

Q. *Is CRV taxable?*

A. The charge for California Redemption Value (CRV) is not a deposit, but a fee imposed on the distributor of the beverage. The fee is passed along to the retailer and to you as the consumer. Although separately stated, the fee is subject to tax as part of the taxable selling price of the beverage.

Q. *When is labor taxable?*

A. There are three types of labor: fabrication, installation and repair. The creation or fabrication of new property is subject to tax. However, installation and repair labor are generally excluded from tax.

Q. *I bought a sweater and paid the store extra to gift-wrap it. Why was the gift-wrapping charge taxed? Isn't that a service?*

A. Charges for services are taxable when they are considered part of a taxable sale. When a store sells you a taxable item, its charges for gift-wrapping that item are also taxable.

Q. *I recently purchased a refrigerator that was delivered to my home. Is the delivery fee taxable?*

A. Delivery charges are usually taxable when retailers use their trucks or vehicles to deliver the merchandise. Delivery charges are generally not taxable when the charges are itemized, the retailer arranges for a third party to deliver the property, and the retailer's charge for delivery does not exceed their cost.

Q. *I am a California resident. If I purchase a car out of state for personal use and bring it into California, will I have to pay tax?*

A. Yes, unless the vehicle is used solely outside of California for more than 12 months after its purchase. Beginning October 2, 2004, if a California resident purchases a vehicle and brings it into California at any time during the first 12 months, it will be presumed that it was purchased for use in California and be subject to tax.

Q. The grocery store sells laundry soap for \$12. I used a \$2 manufacturer's coupon and paid \$10. I was charged tax on \$12 — is that right?

A. Yes. The store owes tax on the total amount it receives for the sale — the \$10 you paid and the \$2 it will get from the manufacturer. If you had used a coupon issued by the grocery store or the grocery store's discount "club card," tax would have been due on \$10.

More Questions?
Check out the BOE website at
<http://www.boe.ca.gov/sutax/faqscont.htm>
or
Call 800-400-7115

Note: This pamphlet summarizes the law and applicable regulations in effect as of March, 2005. However, changes in the law or in regulations may have occurred since that time. If there is a conflict between the text in this pamphlet and the law, the latter is controlling.

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